

Message Text

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ACTION EB-07

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E.O. 11652: N/A
TAGS: EAIR, KE
SUBJ: DISPOSITION OF EAST AFRICAN AIRWAYS' DC-9'S

1. SUMMARY: KENYAN COURT-APPOINTED LIQUIDATOR
FOR EAST AFRICAN AIRWAYS DISCUSSED POSSIBILITY OF DC-9
SALES WITH VISITING REPRESENTATIVES OF US DOMESTIC
AIRLINE. POTENTIAL BUYERS SHOULD BE AWARE OF LEGAL ENCUMBRANCES
ON AIRCRAFT WHICH MAY RESTRICT THEIR OPERATION OUTSIDE
KENYA. MEANWHILE, KENYA AIRWAYS FLEET PLANS ARE FOCUSSING
ON BOEING EQUIPMENT FOR WHICH US FINANCING MAY BE SOUGHT.
END SUMMARY.

2. ECONOFF RECENTLY RECEIVED VISIT FROM TWO OFFICERS OF
US DOMESTIC AIRLINE INTERESTED IN PURCHASE OF TWO
DC-9 AIRCRAFT OWNED BY DEFUNCT EAST AFRICAN AIRWAYS
(EAA). BOTH AIRPLANES ARE CURRENTLY BEING USED BY KENYA
AIRWAYS (KA) TO COVER INTERNAL ROUTES AND PROJECTED TO BE
OPERATED ON ROUTES TO ADDIS ABABA AND MOGADISCIO. INFORMATION
OBTAINED BY AIRLINE REPS IN DISCUSSION WITH LOCAL ATTORNEY AND
EAA
INTERIM LIQUIDATOR MAY BE USEFUL TO DEPT IN REPLYING
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TO INQUIRIES FROM OTHERS IN U.S. WHO HAVE HEARD VIA
AVIATION GRAPEVINE THAT THERE ARE EAST AFRICAN
PLANES ON MARKET.

3. ACCORDING TO VISITORS, LIQUIDATOR ANXIOUS TO
EXTRACT DECISION FROM KA REGARDING DISPOSITION OF DC-9'S ON
KENYAN TERRITORY. LAST MARCH EMBOFF WAS TOLD BY BOTH

KA FINANCIAL OFFICER AND LIQUIDATOR THAT KA ABOUT TO SIGN LEASING AGREEMENT PROVIDING APPROPRIATE PAYMENT FOR TEMPORARY USE OF AIRCRAFT PENDING FINAL COURT SETTLEMENT OF EAA ASSETS. APPARENTLY KA HAS NEITHER SIGNED CONTRACT NOR REIMBURSED LIQUIDATOR. LATTER PLANS THEREFORE TO APPROACH KA BOARD WITHIN 10 DAYS WITH PROPOSAL TO SELL DC-9'S, CONFIDENT THAT CURRENTLY TIGHT MARKET FOR SUCH AIRCRAFT WILL ELICIT HIGH BIDDING.

4. LIQUIDATOR ADMITTED TO US AIRLINE OFFICERS, HOWEVER, THAT UNUSUAL LEGAL SITUATION SURROUNDING COLLAPSE OF EAA WILL RESTRICT HIS ABILITY TO TRANSFER UNENCUMBERED TITLE TO AIRPLANES. FIRST, PLANES ARE NOW PROPERTY OF TRI-STATE CORPORATION WHOSE ASSETS UNDER PROTECTION OF PUBLIC TRUSTEES IN KENYA AND TANZANIA. KENYAN TRUSTEE DOES NOT ENJOY UNDISPUTED RIGHT TO UNILATERALLY SELL PORTION OF AIRLINE PROPERTY. SECOND, EAA DEBTS GROSSLY OUTWEIGH ANTICIPATED ASSETS, PRECLUDING LIQUIDATOR IN EITHER KENYA OR TANZANIA FROM EVER EFFECTING FULL REIMBURSEMENT TO CREDITORS. PROBLEM COULD ARISE IF DC-9'S ARE OPERATED OUTSIDE KENYA BY KA OR NEW BUYER AND THEN ATTACHED BY UNSATISFIED CREDITORS. EMB UNDERSTANDS SHERIFF OF LONDON HAS ALREADY SEIZED EAA B-707 IN UK IN RESPONSE TO PETITIONS BY BRITISH AND KENYAN FIRMS. LIQUIDATOR WORRIED NOW ABOUT RISKS OF FLYING DC-9 TO NEIGHBORING STATES AS WELL.

5. KENYAN LIQUIDATOR DOES NOT ANTICIPATE EARLY SETTLEMENT OF OUTSTANDING CLAIMS AGAINST EAA, NEVERTHELESS TWO US VISITORS TOLD EMB OFFICE THAT THEIR AIRLINE MIGHT

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ACCEPT GOK "GUARANTEE" ON AIRCRAFT PURCHASE. THIS "GUARANTEE" WOULD MAKE GOVERNMENT RESPONSIBLE FOR FINANCIAL SETTLEMENT OF CLAIMS AGAINST PLANES OR ENTITLE BUYER TO DIRECT REIMBURSEMENT OF PURCHASE COSTS FROM GOK SHOULD PLANE BE CONFISCATED.

6. COMMENT: KA APPEARS TO BE APPROACHING FINAL DECISION ON FLEET CONFIGURATION WHICH PROBABLY PROMPTED RUMORS OF DC-9 SALES. AIRLINE HAS BEEN ACTIVELY SOLICITING FINANCING FOR THREE USED B-707'S OFFERED BY NORTHWEST AIRLINES AND HOPES TO HAVE PLANES IN OPERATION AROUND OCTOBER 1977. KA MANAGEMENT REPORTEDLY WORKING TOWARDS MAXIMUM STANDARDIZATION OF EQUIPMENT AND SEES LITTLE USE FOR DC-9'S, WHICH CAN BETTER BE REPLACED BY FOKKER FRIENDSHIPS ON INTERNAL FLIGHTS (TWO FOKKERS INHERITED BY KENYA FROM EAA). REGIONAL FLIGHTS TO ETHIOPIA, SOMALIA, SUDAN, AND EGYPT ARE MORE EFFICIENTLY SERVICED BY LONG-RANGE AIRCRAFT TERMINATING IN EUROPE. DESPITE PRESS ANNOUNCEMENTS

THAT EAA'S FOUR VC-10'S WOULD BE RETURNED TO UK, ONE HAS
REPORTEDLY UNDERGONE REPAINING AND PLANES ARE STILL
SITTING AT NAIROBI AIRPORT. KA SUCCESS IN
CONSUMMATING BOEING DEAL WITH NORTHWESTERN MAY CLARIFY
ULTIMATE FATE OF BOTH DC-10'S AND DC-9'S.
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